No. 20253

IN THE

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

THOMAS ORGAN CO., a California corporation,

Appellant,

vs.

JOHN A. NEAL AND JOHN G. DUFFY, individually and doing business as Workshop Publications,

a co-partnership,

Appellees

APPELLANT'S OPENING BRIEF

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I

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I

STATEMENT OF JURISDICTION

The jurisdiction of the District Court was invoked upon the basis of Title 28, Sections 1338 (a) and (b) of the United States Code for claims arising under the Copyright Law of the United States (Title 17 of the United States Code) and related claims of unfair competition. The first Amended Complaint for Copyright Infringement and Unfair Competition filed in the District

Court alleges the basis of jurisdiction (Amended Complaint page 2, line 7 to 11; page 5, lines 23 to 25) and the trial court's findings of fact support the allegations of the Amended Complaint (Finding of Fact No. 1).

This matter is a subsequent appeal from a prior appeal docketed as No. 18386 in the above entitled court, the written opinion of which was filed by the Honorable Court and published as Neal and Duffy vs. Thomas Organ Co., 325 Fed. (2d) 978(9 Cir. 1964).

This Honorable Court of Appeals has jurisdiction under Title 28, Section 1291 of the United States Code enabling it to review the final judgment entered against appellants herein.

II

STATEMENT OF THE CASE

Defendant-Appellant Thomas Organ Co., a California corporation, will be referred to hereinafter as "Thomas", and Plaintiffs-Appellees John A. Neal and John G. Duffy, individually and doing business as Workshop Publications, a co-partnership, will be referred to hereinafter as "Neal and Duffy".

The case was originally tried in April, 1962, upon an allegation of infringement of copyright of a

course of instruction entitled "Have Fun at the Thomas Electronic Organ with John A. Duffy." It was claimed by Neal and Duffy that they had the registered copyright to a book of instruction that was a part of the course. The Complaint also alleged unfair competition in that the course of instruction also included a set of records in the form of an album which contained in part recorded performances of Duffy. The instruction book and the album were used as one unit, wherein a lesson plan was set forth in the printed instruction manual, which was coordinated with the record albums in teaching a prospective student how to play a Thomas Organ, which is a musical instrument sold and distributed by Thomas. After the conclusion of the trial in April, 1962, the trial court determined that the copyright was invalid due to the fact that the notice of copyright was printed on the third page of the instruction booklet and further found that under the circumstances of the evidence presented Thomas was not guilty of unfair competition. The basis of the trial court's ruling as to the invalidity of the copyright was that the title appeared only on the outside cover of the album, the reverse side of the cover was blank, and that the notice appeared on the third page in contravention of

the requirements of Section 20, 17 U.S. Code.

Neal and Duffy appealed the findings and judgment, and this Honorable Court in the case of Neal and Duffy vs. Thomas Organ Co., supra, reversed the findings of the court as to the invalidity of the copyright, in which this Honorable Court of Appeals found that the notice was adequate under the requirements of the Code. This Honorable Court further determined that the trial court's assumption that state law controlled the question of unfair competition was inaccurate, ruling that the Lanham Act (15 U.S.C.A. Section 1126) had created a substantive Federal law of unfair competition. This Honorable Court of Appeals remanded the question of unfair competition back to the trial court for further findings in light of applicable Federal law.

The matter was again submitted to the trial court who upon the record of the evidence presented at the trial on April 1962, and in conformity with the ruling of this Honorable Court of Eappeals and its remand, made further findings of fact and conclusions of law and entered judgment. The judgment assessed damages and called for an accounting of further profits from the date of the trial to

the date of the subsequent judgment.

The questions involved in this appeal are the propriety of the trial court in awarding profits without apportioning as between the copyrighted work, i.e., the printed instruction manual, and the record album which was not copyrighted and which the trial court found to be not violate of unfair competition restrictions; and the correctness of the ruling of the trial court that there was no implied or expressed license between Thomas and Neal and Duffy concerning the right of Thomas to manufacture and sell the purportedly infringing copyrighted work.

Those portions of the record below substantiating the matters of fact referred to above are the First Amended and Supplemental Complaint filed December 16, 1960, alleging causes of action for damages, injunctive relief and accounting for profits, and for unfair competition; Exhibits 1, 2, 3 and 4 introduced at the trial of April, 1962, before the trial court, Findings of Fact Nos. VI, VII, VIII, IX, XV, XVI, XVII, XVIII, XIX, XX, XXI filed and entered May 4, 1965, and Conclusions of Law No. III, IV, V and VII. Reference is also made to the Memorandum of Opinion filed May 4, 1964, by the United States District Judge setting

forth his reasoning and basic findings from which the Findings of Fact and Conclusions of Law and Judgment were drawn and filed.

Neal and Duffy had composed the printed instruction book which the court has concluded was the subject of a valid copyright in favor of Neal and Duffy, which instruction booklet, as above stated, formed the part of a course of instruction which also included an album of records to be used in conjunction with the instruction booklet. For a period of approximately a year and a half from August 1957 through December 1958, Neal and Duffy sold the course of instruction to Thomas for use by Thomas in promoting the sale of its musical instruments, an electronic organ, which arrangement terminated when the parties could not agree on a negotiated basis to continue further manufacture and sale. After negotiations broke down, Thomas proceeded to manufacture and sell its own course of instruction. It is the subsequent manufacture and sale of Thomas' course of instruction concerning which the Findings of Fact and Conclusions of Law and Judgment herein were entered.

III

SPECIFICATION OF ERRORS

Appellant asserts that the District Court committed error as follows:

1. The Honorable Trial Court erred in finding (Finding of Fact No. XVIII, lines 28 through 32) that Thomas' profits must be attributed to the sale of the course as a whole and that profits cannot be apportioned since none were, and could not have been, derived from the sale of the records alone. The substance of the error is that the course of instruction consisted of two separate and distinct components, that is, the printed instruction manual, which was copyrighted, and the album and records which were not copyrighted, each having its own separate and distinct costs and physical appearance, which can reasonably be apportioned as far as the resultant profits arising from the sale of the two as a combination in one package. The purpose of the award of profits under the Copyright Act is to award compensation and damages and not to punish, and the law provides for reasonable apportionment when a basis for apportionment appears. The Copyright Act (17 U.S. Code

Section 101 (e) provides for an award of profits only upon the work which infringes upon the copyright, and does not provide for an award of profits or damages upon noninfringing material.

2. Findings of Fact Nos. XX and XXI are clearly erroneous in holding that Neal and Duffy did not grant Thomas an express or implied license to reproduce the course of instruction and in holding that Thomas did not have a shop right or other implied license by operation of law to reproduce the course of instruction. The evidence at the trial and the findings of the trial court clearly show that the course was compiled and produced specifically for the purpose of selling the course of instruction in conjunction with the products sold by Thomas, and that the course was specifically entitled in order to show the connection. Thomas paid a portion of the original manufacturing costs over and above the royalty which they agreed to pay, and generally cooperated in the formulation and manufacture of the course and agreed to a licensing arrangement at least for a period of time. The course of dealing between Thomas and Neal and Duffy clearly was a licensing arrangement and further

implied a license or equitable interest in the copyright on behalf of Thomas.

IV

SUMMARY OF ARGUMENT

A. Statute

B. Thomas was guilty of no wrongdoing in manufacturing and selling the album which is a part of the course of instruction.

C. The Trial Court is required to make a reasonable apportionment of the profits arising from the sale of the course of instruction as a whole and to attribute to the infringing material only its reasonable share of the profits as an award to the copyright proprietor.

D. Thomas has an express license.

E. Thomas' license may be implied from the conduct of the parties.

F. Although Neal and Duffy may be regarded for some purposes as independent contractors, they are, nevertheless, governed under California law of the employer-employee relationship.

G. Thomas has equitable rights despite the

terms of express contract.

V

ARGUMENT

A. Statute.

Section 101 (b) of the Copyright Act (17 U.S. Code) provides that an infringer shall be liable "to pay to the copyright proprietor such damages as the copyright proprietor may have suffered due to the infringement, as well as all of the profits which the infringer shall have made from such infringement." The Honorable Trial Court made no finding as to damages which may have been suffered by Neal and Duffy but confined his findings (Finding of Fact No. XVII) strictly to the computation as to the profits which accrued to Thomas during the period involved in the computation. (See also Conclusion of Law No. V stating that the Neal and Duffy partners are entitled to recover from defendant the sum of $24,511.80 as the profits which Thomas made). The court made no attempt to base its award on the "in lieu" provision of the Copyright Act (17 U.S. Code Section 101 (b), nor did the court attempt to invoke another "in lieu"

provision appearing in Section 101 (e) of 17 U.S. Code referring to mechanical reproduction of musical works. Nor could the court make such a finding in view of well established law that records are not subject of copyright (Capital Records v. Mercury Records, 221 Fed. (2d) 657, 2nd Circuit 1955), and further in view of the provisions for compulsory license in the event that the records have actually been sold and published. See Norbay Music, Inc. v. King Records, 290 Fed. (2d) 617 (2 Cir. 1961). Section 1 (e) of the Copyright Act 17 U.S. Code. Once the records have been sold the copyright owner must look exclusively to the recovery of royalties specified in Section 101 (e). ABC Music Corp. v. Janov, 186 Fed. Sup. 443 (S.D.,California 1960).

B. Thomas was guilty of no wrongdoing in manufacturing and selling the album which is a part of the course of instruction.

The trial court expressly found that the acts and conduct of Thomas did not constitute unfair competition under the federal law of unfair competition. (Conclusion of Law No. IV). This Conclusion of Law is reported by the court's Finding of Fact XIV that Duffy's recorded performance was not unique,

that it could have been accomplished by any organist of average ability, and adds little or no value to the records which were manufactured and sold. The court further made the finding that Thomas did not palm off its records as those of Neal and Duffy. The Honorable Trial Court was very particular in his finding on this subject especially in view of the opinion of this Honorable Court of Appeals cited above. In remanding the matter back to the trial court for his consideration as to whether the Federal law of unfair competition had been violated rather than the State law of unfair competion, the trial court in obedience to the direction stated in his Memorandum Opinion that there was no appropriation of Duffy's performance, there was no case of "palming off" or "secondary meaning" and that Neal and Duffy had failed to establish their claim of unfair competition. To further cement this view, the trial court further found that they would not be entitled to more than nominal damages even in the event that unfair competition were found to exist, and in such alternative possibility granted the award of $1.00 if such damages were in fact awarded. (Memorandum Opinion, page 5, lines 13 through 32, page 6, line 1). It is clear, therefore, that the only

wrongdoing of which Thomas could be held liable is that of infringing on the copyright and resultant award from such wrongdoing. The infringement of the copyright is expressly separated from any possible claim of unfair competition. In Finding of Fact No. XIX the court found that the course of instruction of Neal and Duffy consisted of a printed instruction manual and four records. See also Finding of Fact and Conclusion of Law page 4, lines 28 through 30, page 5, lines 2 through 6; Finding of Fact XVI, page 6, line 31 through 32, and page 7, lines 1 and 2. The court further specifically found (Finding of Fact No. XVIII, page 7, lines 26 through 28) that the records have no purpose when separated from the printed instruction manual and <u>it is only the course as a whole that has any substantial value</u>. (Emphasis added).

The court distinctly made a differentiation between the instruction manual (for which a copyright is registered) and the album of records (which is non-copyrightable, does not constitute unfair competition, and for which no possible damages can be assessed). Nonetheless the court refused to make any reasonable apportionment to the one element of the whole course of instruction which was solely infringing.

C. The Trial Court is required to make a reasonable apportionment of the profits arising from the sale of the course of instruction as a whole and to attribute to the infringing material only its reasonable share of the profits as an award to the copyright proprietor.

The leading case on apportionment of profits due to copyright infringement is the Supreme Court case of Sheldon v. Metro Goldwyn Mayer Pictures, 309 U.S. 390 (1940). In this case the Trial Court had awarded all profits arising out of infringing motion picture because of the difficulty of apportioning the profits derived. The Court of Appeals apportioned the profits, holding that "to avoid the one certainly unjust course of giving the plaintiffs everything, because the defendants cannot with certainty compute their own share". The Supreme Court reviewed the Court of Appeals' decision, held that a reasonable apportionment of the profits would be a method by which the award "could be justly fixed as a limit beyond which the complainants would be receiving profits in no way attributable to the use of their play in production of the picture".

This apportionment was made in spite of a

direct finding that the infringers had used the infringing work intentionally, and the Supreme Court went on to say "petitioners stress the point that respondents had been found guilty of deliberate plagiarism, but we perceive no ground for same that in awarding profits to the copyright proprietor as a means of compensation, the court may make an award of profits which have been shown not to be due to the infringement. That would not do equity but would inflict an unauthorized penalty."

This reasoning was reiterated in the case of Orgel v. Clark Bordman Company, 301 Fed. (2d) 119 (2 Cir. 1962), in which the court at page 121 stated: "In the cases such as this where an infringer's profits are not entirely due to the infringement, and the evidence suggests some division which may rationally be used as a springboard it is the duty of the court to make some apportionment." (Emphasis added).

This Honorable Court adopted the Sheldon rule of law in Universal Pictures v. Harold Lloyd Corp. 162 Fed. (2d) 354 (9 Cir. 1947), and held that an apportionment would be proper as allowed in the Sheldon case even though the pictures had been exhibited in theatres after full knowledge of misappro-

priation of scenes in which the plaintiff had appeared and which were found to be infringing. This Honorable Ninth Circuit Court also made a similar finding in the case of Twentieth Century Fox v. Stonesifer, 140 Fed. (2d) 579 (9 Cir. 1944). In both the Harold Lloyd and Stonesifer cases the court made an apportionment of 20% of the profits. In Harris v. Miller, 57 U.S.P.Q. 103, a 35% apportionment was applied to legitimate stage production. It is noted that in the Orgel case, supra, the Court of Appeals modified an award of 100% of the profits to apportion the award of 50% of the profits in spite of the fact that the defendant in that case offered no evidence on the issue of a fair division. In the Orgel case, the Court of Appeals simply made its own comparison of the infringing material in the work and concluded that a 50% apportionment was fair under the circumstances.

A struct rule against apportionment was originally promulgated in the case of Callaghan v. Myers, 128 U.S. 617 (1888) which held that a defendant must pay all of the profit where infringing and non-infringing elements were mingled in the production of an infringing article. The Sheldon case, though not expressly overruling Callaghan, impliedly did so and

greatly modified the effect of the Callaghan rule. The court in the Orgel case also noted that Callaghan v. Myers had been narrowly limited and had no application "where it is clear that all of the profits are not due to the use of copyrighted material . . . " A commentator on the apportionment problem has stated "the rule established by the Supreme Court in Callaghan v. Myers that the infringer is liable for the entire profits made on the infringement on the theory of wrongful confusion of goods is no longer followed." Vol. 2 Studies on Copyright, Arthur Fisher Memorial Edition, Study No. 22, "The Damage Provisions of the Copyright Law", by William S. Strauss, October 1956, page 995, et seq. Another commentator on this subject has stated "the Orgel decision appears to suggest that whatever vestage of Callaghan remain after Sheldon will no longer be followed". Nimmen on Copyright, page 676.

Thomas, at the time of trial, suggested a reasonable basis for apportionment because according to the testimony of Richard Silliman, commencing at page 837 of the Reproter's Transcript (hereinafter referred to as "RT") at line 20 and commencing at page 838, line 18, it appears that the cost of the

instruction manual which was the copyrighted item would be approximately 11% of the total cost of the entire course. (See RT page 841, lines 15 through 21)

Section 101 (e) of the Copyright Act, 17 U.S. Code, provides for royalties for the use of mechanical reproduction of musical works. Such royalties are paid "in lieu of profits and damages". In the event of failure to comply with the two cent requirement of that section, a royalty not exceeding three times two cents per manufactured part is called for by the statute. If, in fact, therefore, the contents of the records had in fact been copyrighted, the maximum amount of recovery to which Neal and Duffy would be entitled would be six cents times approximately 5,600 albums sold each containing four records, or a damage award in the amount of approximately $1,400.00. The court, however, has found that there is no unfair competition in the use of the records and there is no finding that the works are copyrighted. Therefore, Neal and Duffy, by the failure of the court to apportion the profits are entitled by the court's ruling to more of an award than they would have been entitled had they in fact procured a copyright on the contents of the records. Such a result is patently unfair and contrary to law.

In one case, Szekely v. Eagle Lion Films, 242 Fed. (2d) 266 (2 Cir. 1957), damages were found in accordance with previous negotiations and agreements between the plaintiff and defendant. A film was published with notice that the defendant was infringing and damages were awarded by the court in reliance on an agreement beforehand as to the value of the work which the court found to have been appropriated in the publication. In Finding of Fact No. VIII this Honorable Court found that Neal and Duffy were to be paid 10% above the cost of the courses plus an additional royalty of fifty cents on each course purchased. 10% of the cost would be approximately $2,400.00 and fifty cents on each course times the 5,578 courses sold would be the sum of $2,789.00. Although the court also found that Neal and Duffy were to retain control on approval of their course there was no complaint that the course itself was inferior or that Neal and Duffy would not have approved of the course. It would appear, therefore, that Neal and Duffy would reasonably be entitled to the bargain for which they negotiated and in an amount calculated by their own agreement.

An award of damages in copyright infringement

cases is made as compensation and not as punishment.

Cunningham v. Douglas, 72 Fed. (2d) 536,

55 Supreme Court 365, 79 LED 862, 294

U.S. 207.

Davilla v. Brunswick-Balke Collender Co.,

94 Fed. (2d) 657.

The principles of equitable compensation as opposed to penalty for a wrong in copyright cases is the same as the law governing compensation in patent cases.

Sheldon v. Metro Goldwyn Mayer Pictures, supra.

The equitable nature of the compensation in patent cases is set forth in Garretson v. Clark, 111 U.S. 120, and Dowagiac Manufacturing Co. v. Minn. Moline Plow, 235 U.S. 641.

D. Thomas has an Express License.

A transfer of a limited right in the copyright is a license.

Field v. True Comics, 89 Fed. Supp. 611

Waterman v. Mackenzie, 138 U.S. 252,

11 S. Ct. 334, 34 L. Ed. 923

New Fiction Publishing Co. v. Star Co.,

220 Fed. 994

Goldwyn Pictures v. Howells Sales, 282 Fed. 9

Widenski v. Shapiro Bernstein & Co., 147 Fed. (2d) 909 (2nd Circ. 1945)

The Waterman case is a patent case cited as authority for the same rule in copyright cases.

Local Trademark v. Powers, 56 Fed. Supp. 751, 752 (E. D. Penn. 1944)

A copyright license is a grant of the right to make, use or sell the copyrighted work; it is an assignment of rights less in degree than the copyright itself.

United States v. Wells, 176 Fed. Supp. 630, 634

In the Wells case the District Judge approved the argument that a licensee can publish copies belonging to the licensee, and the owner cannot sue for copyright infringement but is left with a breach of contract action as a remedy. It is noted that in this case the work sold by the defendant bore the copyright notice of the copyright owner.

When a copyright proprietor transfers one or more of the separable rights which make up the copyright property the transferee becomes a licensee.

Goldsmith v. Commissioner of Internal Revenue, 143 Fed. (2d) 466 (2nd Cir. 1944).

The definition of license set forth in DeForest Radio T & T v. RCA, 9 Fed. (2d) 150 at page 151, is:

> " . . . permission to make, use and/or sell arricles embodying the inventions, or a transfer which does not affect the monopoly of the patent otherwise than by estopping the licensor from exercising its prohibitory powers in derogation of the privileges conferred by him upon the licensee.
>
> A license may be expressed or implied. An express license may be conferred by a written instrument or by parol . . . An implied license may arise out of any circumstances which operate as an estoppel on the owner of the patent to prevent him from denying the rights claimed by the apparent licensee . . . Any conduct by which the owner of the patent induces the person who employs the invention to place himself in a situation where he must suffer injury, unless his right to practice the invention is conceded, will be regarded

as implying such a right, and as estopping the owner of the patent from asserting his prohibitory powers in its defeat."

In the instant case the undisputed facts show that the work purportedly copyrighted was designed and composed specifically for Thomas as an item to be sold by Thomas in connection with its Model G organ sales. Neal and Duffy knew and agreed that Thomas would sell these copyrighted works to distributors.

It is noted that there is not one shred of evidence in the record showing that the quality of the work produced by Thomas was inferior or in any other way not up to the standards of the work sold to Thomas by plaintiffs. Without question, Thomas therefore had the right to sell the copyrighted work and to procure the work from other sources including manufacturing the work irself. Such an agreement constitutes an express license in that such a transfer gives to Thomas limited rights under the copyrigh statutes which the owner would possess exclusively except for such agreement.

These principles are further exemplified in the case of General Motors Corp.v. Dailey, 93 Fed. (2d) 938, 941 (6 Cir. 1937) in which acquiescence in sales based on certain prior oral understandings was deemed

a license. As part of the arrangement between the parties in the instant action, a royalty was agreed upon, being a 50¢ royalty on each item produced. All parties so testified and it is specifically referred to in Thomas' Exhibit "B", which is Neal and Duffy's Invoice No. 6601 with attached copy breaking down the cost per unit. Without question, royalty is defined as "payment for permissive or lawful sue of a property right and not damages for a pirated or illegal appropriation of such property right".

United States v. Youngstown Sheet and Tube Co., 171 Fed. (2d) 103, 111 (6 Cir. 1948)

In Campbell v. Great National Life Ins. Co., 219 Fed. (2d) 693, at page 697 (5 Cir. 1955) the Court defined royalty as a share of the product or property reserved by the owner for permitting others to use the property and that there is no doubt that Congress understood this meaning in respect to patents and copyrights.

Furthermore, the case of Rohmer v. Commissioner of Internal Revenue, 153 Fed. (2d) 61 (2nd Circ. 1946) held that a transfer of less than all of an author's bundle of rights under a copyright is a license and that payment for the granting of such a license is a royalty (page 63). Being such, the Court

held that even though the royalties were paid all in one lump sum, they can be differentiated from the sale of personal property and are taxable as royalties under the Internal Revenue Code.

In the instant case by express agreement a 50¢ royalty was to be paid on the course of instruction including all its component parts and by such agreement plaintiffs have expressly permitted the use of whatever rights they have in the course of instruction. Compare Brown v. Marks & Sons Co., 64 Fed.Supp. 352, in which the Court held that there was an express contract for a license when it was agreed that "reasonable royalties" were to be paid for the use of an invention.

(E). Thomas' License May be Implied from The Conduct of the Parties.

DeForest Radio T & T v. RCA, supra, also defined an implied license, basing it on equitable grounds concerning the conduct of the parties, regardless of the formalized agreement. The Supreme Court in DeForest Radio T& T v. United States, 273 U.S. 236, 47 S. Ct. 366, 71 L. Ed. 625, recognized the principle when it said:

"No formal granting of a license is neces-

sary in order to give it effect. Any language used by the owner of the patent or any conduct on his part exhibited to another, from which that other may properly infer that the owner consents to his use of the patent in making or using it, or selling it, upon which the other acts, constitutes a license, and a defense to an action for a tort". (Compare Duval Sulphur & Porash Co. v. Potash Co. of America, 244 Fed. (2d) 698, 701 (10th Circ. 1957) where the court declined to use the DeForest Radio T & T v. United States principle because there was in fact never an agreement between the parties).

The principle established by the Supreme Court in the DeForest case was recognized in B&M Corp. v. Miller, 105 Fed. Supp. 942, 947. In the B & M Corp. case there was no finding of an implied license because of an improvement patent incorporating features for which consent had not previously been given.

In Lukens Steel Vo. v. American Locomotive Co., 197 Fed. (2d) 939 (2nd Circ. 1952) the Court in citing the Supreme Court DeForest case held that Lukens' presentation of a patent design to American Locomotive for

its acceptance and use carried with it the intention to make the grant effective and to permit American Locomotive to enjoy the full use thereof. The Court there found an implied license regardless of a confidential relationship and based the implied license partially on the holding of the District Court (99 Fed. Supp. at page 446) that the parties were engaged in "A business relationship involving mutual confidence and mutual efforts in which each party hoped to profit". The Court concluded that the presentation of the patented design by Lukens necessarily carried with it the granting of a license to enjoy the use of the thing presented and an injunction would not lie.

In the instant case there is no dispute that plaintiffs' work was composed, drawn, designed and made for the express purpose of Thomas' organ business and sales and was to be used as a promotion and sales item. Thomas agreed to pay all of the "make ready" costs. Having designed the work expressly for Thomas' needs and after Thomas had paid all the necessary costs to create the work, Neal and Duffy by their infringement action, seek to defeat the exact purpose for which they contracted with Thomas.

The cardinal rule in construction of con-

tracts is that the mutual intention of the parties, as exhibited by their language, acts and conduct governs.

Crocker Co. v. McFaddin, 148 Cal. App. (2) 639, 307 Pac. (2d) 429

It would be an absurd and unreasonable construction of the agreement between the parties herein to hold that their agreement included the right of plaintiffs to prohibit Thomas from using the course expressly designed for its product which was identified by the Thomas name and the basic costs for which were sustained by Thomas. Moreover, the agreement expressly contemplated the sale of these courses by Thomas in connection with its business and, in fact, some 6,000 copies of the course produced by plaintiffs were sold by Thomas under the agreement.

California Civil Code Section 1636 states that contracts must be construed to give effect to the mutual intention of the parties as it existed at the time of contracting, so far as it is ascertainable and lawful.

(F). Although Plaintiffs May be Regarded for Some Purposes as Independent Con-

tractors, They Are, Nevertheless, Governed Under California Law of the Employer-Employee Relationship.

Section 2860 of the California Labor Code states:

"Everything which an employee acquires by virtue of his employment, except the compensation which is due to him from his employer, belongs to the employer, whether acquired lawfully or unlawfully, or during or after the expiration of the term of his employment."

Section 2750 of the Labor Code states:

"The contract of employment is a contract by which one, who is called the employer, engages another, who is called the employee, to do something for the benefit of the employer or a third party."

Section 3000 of the Labor Code defines a servant as one:

" . . . who is employed to render personal services to his employer, other than in pursuit of an independent calling and who in such service remains entirely under the control and direction of the employer, who

is called his master".

Therefore, the rights of the employer under the Labor Code, Section 2860, to claim ownership of the things acquired by the employee is a broader right than just to claim ownership of that thing produced by a "servant". In the instant case there is no question but that the plaintiffs were engaged to do something for the benefit of Thomas, the "employer". Under these definitions, a motion picture actress has been held to be a servant of the producer. Darmour v. Baruch Corp., 135 Cal. App. 351, 27 Pac. (2d) 664.

It is commonly accepted that the right to control is the test of the existence of a master-servant relationship, but it is the existence of the right and not its use or lack of use that is important.

Robinson v. George, 16 Cal. (2d) 238, 105 Pac. (2d) 914.

The fact that one is performing work and labor for another is prima facie evidence of employment and such a person is presumed to be a servant in the absence of evidence to the contrary.

Pierson v. Holly Sugar Corp. 107 Cal. App. (2d) 298, 237 Pac. (2d) 28

Alford v. Bello, 130 Cal. App. (2d) 291, 278 Pac. (2d) 962

A playing member of a semi-professional baseball team has been held to be the agent or servant of the tavern that sponsored the team.

Bonetti v. Double Play Tavern, 126 Cal. App. (2d)Supp. 848, 274 Fed. (2d) 751

A physician who agreed to maintain the medical practice of another doctor in the latter's absence on military duty has been held to be an employee of the absent physician.

Hamilton v. Salopek, 71 Cal. App.(2d) 104, 161 Pac. (2d) 955

One who is an independent contractor may, at the same time, in another capacity, be an employee of the same employer.

Hedge v. Williams, 141 Cal. 455, 63 Pac. 721, 64 Pac. 106

In the instant case plaintiffs performed two functions, the first to produce, write and put together the course of instruction and secondly, to sell completed courses of instruction as a packaged item to Thomas. In selling the course to Thomas, plaintiffs may have been independent contractors, but in writing, producting, creating and otherwise making the course it wouldappear that plaintiffs were

employees of Thomas within the contemplation of the California Labor Code sections, especially in view of the fact that the course had to be specifically designed for Thomas' purposes. Further, throughout the creation of the course plaintiffs conferred with employees of Thomas and, in fact, received contributions from them as to the content of the course.

Defendant's Exhibit "B" Invoice No. 4672 from the plaintiffs, dated August 21, 1957, was in part a bill for "recording and materials, rental of equipment relative to production of Johnny Duffy Lesson Album". This bill was paid by defendant. The defendant's Exhibit "A", a letter dated November 11, 1957, stated that all costs under the heading "make ready" have been paid by Thomas. The attached cost sheet included fees for the artist according to AFTRA scale and all fees for engineering, recording, editing and tape which had been negotiated to an agreed figure. Therefore, the plaintiffs had performed personal services for Thomas which included the performance, editing, engineering, etc., for which they had been fully paid. Under the Labor Code provisions the work so produced belongs to Thomas.

In Zahler v. Columbia Pictures Corp., 180

Cal. App. (2d) 582, 4 Cal. Rptr. 612, Zahler had been hired by the producer to conduct an orchestra for background music in connection with a motion picture.

> "He received compensation therefor according to the union scale then in effect with the American Federation of Musicians . . . having been paid for his services, all rights to the product of these services passed to Darmous (the producer) . . . Where an employee creates something as part of his duties under his employment, the thing created is the property of his employer, unless, of course, by appropriate agreement, the employee retains some right in or with respect to the product".

The only agreement made between the parties in this case was that Thomas was to pay for the "make ready" costs. Thomas did so pay for them and these costs included the services of the plaintiffs individually. In addition, Invoice No. 4672, defendant's Exhibit "E", is a bill from Workshop Recordings, which is not a plaintiff in this action, but an independent company owned by plaintiff Neal; it states that the

listed items were "sold to" Thomas Organ Co. The other items were album covers and there is and can be no contention that the plaintiffs retained any rights in the album covers so sold. Obviously, if the album covers sold unconditionally to Thomas by this invoice, so were the recording and engineering items. A sale is commonly understood to mean a transaction by which property of one of the parties thereto is exchanged for the money or other consideration from the other party.

The foregoing principles were recognized in Aero Bolt & Screw v. Iaia, 180 Cal. App. (2d) 728, 5 Cal. Rptr. 53. In this case the court cited as authority United States v. Dubilier Condenser Corp., 289 U.S. 178, 53 S. Ct. 554, 77 L. Ed. 1114, in support of the rule that a patent would be assigned where the employee is hired to invent or has the duty to invent (page 736). The Aero Bolt case further stated the proposition that a "shop right" gives the employer a non-exclusive right to practice an invention on equitable principles since the servant uses the master's time, facilities and materials to obtain a concrete result and the employer is in equity entitled to use that which embodies his own property and to dupli-

cate it as often as he may find occasion to employ similar appliances in his business, citing the Dubilier case (page 737). The Court declined to find a shop right in this case expressly because Iaia was not reimbursed for any expense for the development of the item. (Compare the facts in this case where Thomas sustained all the expenses for the development of this item).

(G). Thomas Has Equitable Rights Despite Terms of Express Contract.

The "shop right" principle is not an adjunct of the law of master-servant or employer-employee, but is an equitable principle clearly recognized by the Courts which may, in the proper circumstances, apply to such relationships.

A "shop right" is, in fact, in the nature of an equitable license or an implied license. See Neon Signal Devices v. Alpha Claude Neon Corp. 54 Fed. (2d) 793. The Court in that case stated, at page 793, that the doctrine of the shop rights is of equitable origin and referred to situations in the employer-employee relationship typified by the Supreme Court cases of Solomons v. United States, 137 U.S. 342, 11 S. Ct. 88 34 L. Ed. 667 and Gill v. United States, 160 U. S. 426,

16 S. Ct. 322, 40 L. Ed. 480. The Court went on to say, at page 794:

> "While it is generally true that questions of shop right arise between employer and employee, such right is not restricted alone to the case of an employer, as the doctrine is only a phase of the broad doctrine of estoppel. A shop right may arise through any permissive use of the invention, and particularly so where the inventor instigates such use and participates in it. Robinson on Patents, Vol. 2, page 641, explains and illustrates such a situation.
>
> "The doctrine is broad enough to include a case of the permissive use of a person other than an employer". DeForest v. United States 273 U. S. 236, 47 S. Ct. 367, 71 L. Ed. 625.

The statement in the Neon Signal case was adopted and repeated in Gate-Way v. Hillgren, 82 Fed. (2d) 546, and at page 554, it was stated that the Court does not take the position that a shop right can be acquired only from an employer-employee relationship. The Gate-Way case was affirmed without written opinion

by the 9th Circuit in Gate-Way v. Hillgren, 181 Fed. (2d) 1010 (1950).

In Brown v. Marks & Sons Co., 64 Fed. Supp. 352, the Court, at page 357, stated that estoppel as such is no longer an essential element in establishing shop rights and that there may be shop rights or a vested property right which equity fixes in the invention at its inception. The Court quoted at length from 32 A.L.R. 1041 as follows:

> "In addition to the cases cited in the earlier annotation on this question, holding that the employer had, at least, a license or shop right to use the invention made by the employee, is Wiegand v. Dover Mfg. Co., D. C., 1923, 292 F. 255, in which the court followed the decision in Gill v. United States, 1896, 160 U.S. 426, 16 S. Ct. 322 40 L. Ed. 480, to the effect that the mere fact that the employee conceived and made the original drawings of the invention on his own free time and at his own home, outside of working hours, would not take the case out of the rule entitling the employer to a license to use the

invention, where the same was developed and put into practical operation in the employer's factory and at the latter's expense, the employer, on the principle of an estoppel in pais, being entitled to such a license of shop right. The court said that the entire development and reduction to practice was made at the risk, cost and expense of the employer; that its accumulated stock of experience and its materials and facilities were placed at the disposal of the employee; that it was in this atmosphere, and under the pressure of business necessity, that the inventions were produced, and that whatever originality the employee contributed was only one factor in their evolution; that if the employee's contentions were sound the result would be that he entered the employment with nothing, and three years later left it, the practical owner of the employer's business".

The statement quoted in the Brown case from 32 A.L.R. is particularly applicable to our situation where the idea, although vaguely conceived on Neal and Duffy's

own time, was put into practical operation at the expense of Thomas. Obviously, the plaintiff's efforts toward the production of the purportedly copyrighted work was only one factor in the production. The sale of the item and the development was primarily, if not entirely, at the risk, cost and expense of Thomas.

CONCLUSION

Thomas prays that the judgment of the District Court entered in favor of Appellees be reversed and that this cause be remanded with instructions:

(1) That the Trial Court enter an award apportioned reasonably as this Court of Appeals may determine;

(2) To make a reasonable apportionment of the award of profits as found by the Trial Court;

(3) To find that Thomas has a license or equitable right in the use of the copyright and a reasonable sum for the

use thereof;

(4) For such other and further relief as to this Court may seem just and proper.

Respectfully submitted,

SLAVITT, EDELMAN AND WEISER

By Herbert M. Weiser
HERBERT M. WEISER

Attorneys for Appellants.

CERTIFICATE

I certify that in connection with the preparation of this Brief I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing Brief is in full compliance with those rules.

Herbert M. Weiser
HERBERT M. WEISER

STATE OF CALIFORNIA)
) ss.
COUNTY OF LOS ANGELES)

I am a citizen of the United States and a resident of the County aforesaid; I am over the age of eighteen years and not a party to the within entitled action; my business address is:

8201 Beverly Boulevard,
Los Angeles 48, California

On October 7th, 1965, I served the within APPELLANT'S OPENING BRIEF on the Appellees in said action, by placing a true copy thereof in a sealed envelope with postage thereon fully prepaid, in the United States mail at Los Angeles, California, addressed as follows:

PASAROW & SPIEGEL
Attorneys at Law
9107 Wilshire Boulevard
Beverly Hills, California

I certify (or declare) under penalty of perjury that the foregoing is true and correct.

Executed on October 7th, 1965, at Los Angeles, California.

Herbert M. Weiser

HERBERT M. WEISER